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The Bank Charter Act cannot be maintained...

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THE BANK CHARTER ACT CANNOT BE MAINTAINED WITHOUT A RELAXING CLAUSE.

A SUGGESTION

ADDRESSED TO THE

RT. HON. SIR G. CORNEWALL LEWIS, BART., M.P.,

CHANCELLOR OF THE EXCHEQUER.

BY

EDWARD LLOYD.

"To leave these cases when they do arise, to be dealt with by the irregular exercise of the mere authority of the Crown and its advisers, setting aside once in five or six years, or even at periods more remote, the express provisions of a distinct statute, appears wholly inconsistent with that fixity and order which it is, or ought to be, the object of all law to secure."—*See the Report of the Committee of the House of Lords on the Bank Charter*, 1848.

"If the Bank is to exceed its legal issue of notes as often as its rate of discount is necessarily raised above a certain point, then an act of Parliament should establish the practice on sound and intelligible principles."—*See the Times, leading article, Nov. 13th*, 1857.

LONDON:
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TO THE

RIGHT HON. SIR G. CORNEWALL LEWIS, BART., M.P

CHANCELLOR OF THE EXCHEQUER, ETC.

SIR,

BEING deeply convinced that the slightest error or unsoundness in our currency may lead to the most serious results, I hope you will pardon the liberty I take in addressing the following remarks to you, and in pointing out where I think the great evils of our present system lie. My conclusions are drawn from a close observation of the working of our monetary system for the last thirty years, during which time, whatever progress we may have made in the currency of this country, it must be clear to all that we have yet many startling difficulties to contend with, and none so important as the want of *a steady supply of money especially in the time of panic.* To meet this difficulty, I have a very simple suggestion to make, which I believe is worthy of your serious consideration; but, previously to my detailing the particulars, I feel it absolutely necessary to make the following remarks.

The House of Commons having appointed a Select Committee "to enquire into the operations of the Bank Act of 1844," I would particularly call your attention to that period of the late pressure when it assumed the character of a panic, which it did just before the issuing of the government letter

of the 12th of November last. It must be obvious to you, Sir, that a pressure and a panic may be considered two different stages of the same crisis; the former may arise from many causes which *must always operate;* the latter always *from one which it is in the power of the Legislature much to mitigate.* What I call a panic simply arises from this; namely, the low state of credit or confidence (*the invariable re-action from over-inflation*), requiring that all our vast commercial and speculative transactions should be more or less brought down *to a Currency test*, when that basis is entirely inadequate for its object. 1847 and 1857, and all minor panics, have arisen from the same cause; the whole community at once trying to protect themselves upon a Currency system, which everyone knows *is totally insufficient for the exigency of the case.* I believe, Sir, the more we look at a panic in this light, the more easy it will be to apply the remedy.

Now under the present state of things, the Commercial Public (the cautious and the imprudent alike) have not only to bear the pressure of a monetary crisis, but are constantly more or less compelled to prepare for a further alarming exigency, *a Free-trade and Currency-collapsing panic.* If the apprehension of these calamities were only mitigated, the pressure itself would assume a totally different character; but now when the pressure-gauge begins to tell, every one is compelled to prepare for the worst with more or less exaggerated alarm; for no one knows *when, where, or how*, the catastrophe is to end. A few bad Bank returns under these circumstances, are enough to give the alarm to the whole country, "*sauve qui peut*;" and, in fact, just as the Currency is hastening to "*a lock*," the demand becomes the more intense for supplies.

Clearly, the great object of all Currency laws must be, to

give a safe, adequate, and steady representative of real property, to meet the requirements of commerce, and the general wants of the public, at all times, *especially in the time of pressure;* and not continually to harass, perplex, cripple, and even tend to paralyse private and public credit. Clearly, the Act of 1844, carried fully out *in its entirety*, does not accomplish the former, but rather induces the latter. In these panics money is not annihilated, there is abundance of it in the country, but it has become stagnant and useless, "*for people will not part with it*," as all confidence is gone. The working of the Currency machinery is clogged, well nigh stopped; bills, drafts, cheques, notes, etc., will not circulate freely, "*we must have Bank of England notes, or gold*," is the expression of the day.

The Clearing-House system of doing business *in the City*, is impeded by the hourly failures that are taking place; whilst parties from the provinces flock into London for assistance, which they say "*they must have*": for bank failures are pending, and further runs are expected. The wealthy squire *with his thousands of teeming acres*, and the more opulent merchant with the wealth of Crœsus in his stores—these combined in deputation with the shrewd lawyer that has accompanied them, can raise little or nothing on the best securities. *In fact, when the whole property of the country is without any currency representation, the demand is the most pressing.*

In such an exigency as this, from whence can relief come, but from a further representation of real property through the agency of the Bank of England? As far as I can see, Sir, *no other system can be devised. If the over-trading and speculative part of the community are caught, it is no reason the legitimate trade of the country should lie prostrate too.* Only let the supplies from the parent source

be prudent, steady, and ample, the other country streams would flow more undisturbed to contribute their succour as well.

The Bank Charter Act of 1844 has been fairly tried, and has been found wanting. The Treasury Letters of the 25th October, 1847, and of the 12th of November, 1857, have *emphatically decided this.* Now, Sir, I fearlessly, but respectfully, maintain, that we require a perfectly new *engraftment* on the present system, which has never been properly applied in our paper currency, which is this—*contraction in time of ease, and expansion in the time of pressure.* And the expanding element ought to be clearly understood and defined, *no vagueness or doubt left for the public to solve*, when fear and distrust have taken possession of their minds. It appears to me as clear as any fact can be ascertained, *as credit rises, the necessity for accommodation decreases; and when credit falls, the more is assistance required.* And I feel satisfied, until this simple principle is met and embodied into law, the more frequent and terrible will be our monetary convulsions. There may be Committees of both Houses of Parliament; but however the subject may be discussed there or elsewhere, I feel certain comparatively little will be done if this principle is totally disregarded. Expansion in the time of ease, always proves fatal; but withdrawing assistance in the time of pressure, is tenfold more certain to produce distress and ruin. Previous to every panic, has been the inflation: the great South-Sea bubble itself was blown before it burst; the contemplated reduction of the national debt, at that period, soon roused the dormant speculations of the age. 1720, 1784, 1792, 1810, 1816, 1820, 1825, 1839, 1845, 1847, 1857—all tell the same tale: those periods were but the winding-up of what had gone before—easy money causing over-trading and speculation, the *settlement a panic*—fear and distrust bringing down the towering superstructure of credit—say to the amount of some hundreds of millions—*to the test of reality, pounds, shillings, and pence.*

These inflations and panics shew but too clearly the tendency *of all commerce;* therefore the law ought to be framed to counteract the evil as much as possible; but the Act of 1844 is the first to encourage the extravagant hopes of the free-trader, by offering him money at a mere nominal interest; and then turns round on him, as if to punish him without mercy for his short-sighted folly. Until 1844, money was seldom under 4½ or 5 per cent.; never under 4; but since then we have had it as low as 1½ per cent. for commercial purposes; and even at that price it was difficult to find employment for it. Very many prudent commercial houses were decoyed into engagements in 1844 and 1846, which the same Act made most ruinous in 1847. Again, the 2 per cent. discount of 1852 in a great measure led to the much higher rate afterwards, and to 10 per cent. in 1857, *with the panic.* There can be no doubt that a 4 per cent. minimum would secure, on the average for five years, a much lower rate of discount for the public, than following the ebb and flow of the bullion and reserve, which we do now.

Sir Robert Peel, in his speech in 1848, in the House of Commons, alluding to the panic of the previous year, said —"At all times in the monetary history of this country, a low rate of interest has led to the same commercial depression we now deplore. Take the history of the last sixty years, and I will shew you that in time of peace, or in the time of war, even before a standard was established, a low rate of interest for money *universally led to the same*

result." "Take 1784, for instance, as an example." "Then look at 1792," etc. etc.

It is a very remarkable fact; that although no statesman that ever lived was so conversant with the practical working of our monetary system, and had thought so much on the subject, as Sir Robert Peel, and consequently knew how injurious to commerce are the oscillations in the price of money, that he should have framed a law to carry this system out even to an excess; and further knowing, as he did, how invariably (since commerce began) cheap money had always a tendency *to produce pressure, and a panic afterwards*, that in constructing his Bill of 1844, he quite overlooked *the panic element altogether*. It almost seems incredible to me, Sir, that he should have stated as much (in the same speech from which I have already quoted) when, alluding to the panic of 1847, he said,—

"*The case, Sir, of Panic is one which is not to be provided against; it was one of those cases, as was foreseen by the late Mr. Huskisson, which was not a matter for legislative interference, but for the exercise of the discretion of the Government.*" With all due submission to such authorities, it appears to me to be the case of all others requiring the attention of "*legislative interference*," and one where assistance might be so easily afforded. Surely if we provide means of saving property from shipwreck, we might extend the principle a little further, and try to save solvency from *being panic-wrecked*. In good times, and in moderate ones, the prudent and solvent part of the community *can* take care of themselves, but in time of panic they *cannot*. In this emergency, they ought to have assistance rendered to save them from the general crash, or in other words when all private credit fails, a further extension of public credit ought to be allowed.

And I believe it to be just as sound and safe policy for the Bank to err on the side of expansion in the time of pressure, as it is to err on the side of stringency at other times; and I believe all experience will prove this, if we will examine into every panic that has occurred in this country since commerce began; in countries where a very corrupt circulation is in vogue, this might be otherwise. It is very extraordinary, that although Sir Robert Peel, in the same speech from which I have already quoted, went minutely into all the particulars of the panic of 1793, to shew how exactly it resembled the one of 1847, that he should have thought it necessary to apply so different a remedy to the one that was adopted so efficiently at the former period. Surely the sagacity of that great statesman was wanting here. However the panic of 1847 resembled the one of 1793, most undoubtedly the latter was mitigated by the expansion, and not by the contraction of public credit. I appeal, Sir, to the "ample page" of history, which proves beyond a doubt that 5,000,000 of Exchequer Bills were wisely advanced by the Government to mercantile houses, and "this mode of relief," says the historian, Belsham, "was found extremely *beneficial in its immediate operation; and the tide of commerce soon returned to its accustomed channel.*" I think we may safely infer, that when Sir Robert Peel was called upon to remodel the Bank Charter in 1844, the awkward position in which the Bank of England had been placed for want of gold in 1839 was too fresh in his memory, to allow him to legislate altogether unbiassed in the matter, and perhaps led him to a *somewhat prejudiced conclusion*; whatever might have been the cause of the then great drain of bullion from the Bank, the re-occurrence of such a state of things might have been easily prevented without such an arbitrary measure on the functions of the

Bank, it may be a matter of question whether there was any real occasion of alarm at the reduction of the gold to £2,000,000; for when it was at this low point in the latter end of the year, the circulation was reduced almost to an extreme minimum; being in December of that year as low as 15,000,000. In looking back to the period of 1793, I am quite willing to admit, that the acts of 1819 and 1844 were improvements in the right way upon former acts, especially as to the establishing the soundness of a Bank of England note; but with this step in the science of the currency (if I may so call it), we have attached to it a most unnecessary ruinous condition of supply *in pressure*. I remember even in the panic of 1825, when Bank of England notes were offered on the Stock Exchange at a considerable discount "*as time bargains*"; I have still sounding in my ears on a dark November morning of that versatile year, the energetic shout of "Daniel Hardcastle" (the then great authority of *The Times* for currency and finance), too glad to prove that the long pet theory of his own was at last coming too true.

There are no such bargains to be had now, for *undoubted convertibility* is the order of the day; but this, Sir, is a poor reason that we are to sit down satisfied here and proceed no further, and leave the busy, enterprising, though somewhat too grasping, free-traders of the country to be caught every now and then, as if in some herring-net, and then to be hauled up high and dry upon shore to wait for "government supplies."

I am quite willing to admit, at once that an inconvertible paper curreney is a worthless boon; for it can neither represent or economise the gold of the country. Mr. Twells's £20,000,000 to pay taxes with, &c., *might suit Warwickshire and its neighbourhood*; but most certainly the large

commercial houses *on 'Change*, and even the tax-gatherer himself, would look '*shyly*' at them, *and in a panic, they would greatly aggravate the evil.* I grant, Sir, without any mental reservation, that the only honest, steady, and sound representation of a £5. Bank of England note is as many sovereigns; but while we admit this in argument, we must not carry the principle to a fallacious extreme (*to a disease*) in practice. It is not because three or four millions of sovereigns, in time of Panic, have been taken from the Bank, (from causes which the Directors know full well are for mere *temporary protection* — in the Provinces — that the Bank of England itself is to turn round upon the public, and refuse them assistance *when most required. No, certainly not;* for if it does, from whence is the extra accommodation required by the Panic (*the fall in credit*) to come? Clearly, Sir, all facts, common sense, prudence, and experience would prove, that it is the bounden duty, as well as the best policy of the Bank, in such times, to endeavour to their utmost to supply the extra circulation required *with notes, and thus relieve the gold.* It would be the height of impolicy and short-sightedness in this particular juncture, to be too tenacious of the abstract principle, that for each note in circulation, there ought to be a sovereign in the Bank to meet it. If this was to be practically carried out, the 14½ millions of the issue would require just the same attention, for if this amount of paper circulation has been found to "remain out" since the beginning of the present century. *Surely* 3 *or* 4 *millions more would be equally certain to be absorbed in a panic for paper in* 1857. We must never forget that the increased solidity of the Bank of England note under existing circumstances would always prevent its soundness being questioned in the time *of a temporary withdrawal of gold.* This position of the Bank would be but the exception to the

rule, and would demand all the energy, forethought, and prudence of the Directors to restore it. If the foreign drain was severe; raising the rate of discount would always counteract that difficulty ; for it must be borne in mind, that England's credit — if it was worth her while to pay for it — can always command a "*Favorable Foreign Exchange.*" The temporary advance of discount is really nothing to the public compared to the withdrawal of assistance in these too anxious times : and further, Sir, what prudence and the well-being of the community require — *necessity demands* — it must be obvious to you, Sir, that our Currency Laws, both in theory and in practice, are a strange anomaly here, if we only look thoroughly into their working under pressure. *If the Reserve of the circulation in the Banking Department is absorbed by the Panic, from whence can relief come but by the suspension of the Act.* Surely this boon ought to be granted to the country by Act of Parliament, and not withheld *by the charter* of the Bank. I have no doubt whatever, on the 12th of November last, taking the very lowest calculation, there was hoarded (held for contingencies, lying stagnant and useless), in the United Kingdom, *more* than is usually required — 4 or 5 millions of sovereigns, and as many Bank of England notes, all waiting for a return of confidence, to set free, and to bring back to the Bank, whilst that confidence could *only* be produced *by the suspension of the act of* 1844.

Before I introduce my suggestions, I wish that it should be particularly borne in mind, that all commercial pressures tend to exhaust themselves by continuing, for as the transactions are closed, they naturally come into a smaller compass, but the increasing depression in credit is, generally, enough to enhance more and more the value of money,

until too often a Panic ensues. In these cases, the *principal* outstanding engagements of the country may be considered to be open with the Bank of England direct, in the shape of *temporary* advances to the public in discounts, &c., under the head of "*Other, or Private Securities.*" If we are to establish any true index of the progress of a pressure, this account would shew it the best, and would be an unerring test of the accommodation required. In November last they stood at the unparalleled sum of £31,352,717, and now stand at £23,849,662 (13th January). On the 23rd of October, 1847, they stood at £19,467,000 ; in February, 1844, at £5,847,000 ; in August, 1821, at £2,722,000. Now, on these results, I would base the grand principle of my suggestion, which is this — that the Bank of England should issue paper upon the present basis, increasing the circulation, irrespective of bullion, when '*Other Securities*' amounted to £25,000,000., (*or any other sum fixed upon*), by £1,000,000 by the transfer of that amount of Government securities to the issue department, when "other securities" further advanced to £27,500,000, then another £1,000,000 might be transferred, and so on, on every $2\frac{1}{2}$ millions increase in "other securities," £1,000,000 more of Government securities might be transferred; but never to exceed one-sixth of the whole of the amount of "other securities," and on the pressure subsiding, *to relax accordingly,* it might and ought, in my opinion, to be carried out to a contracting system as well; but this must be for future consideration.

I should also beg to suggest, that the Bank of England's rate of discount should never be under 6 per cent. when the new issue commenced, and that it should increase at least $\frac{1}{2}$ per cent. at every further issue of £1,000,000 of notes. This would check any foreign drain if there were any ; and as our whole currency system depends upon gold

being brought back to the Bank as soon as possible, no one ought to complain of a temporary heavy rate.

If this plan were adopted, I believe all hoarding of gold and notes would be prevented, simply from the knowledge *that there was a provision for the emergency.* The limits of this extra accommodation in the currency, would be so sound, ample, and well-defined, it would not fail to be popular, and would be easily understood by all, and no doubt would give *increased soundness to the whole circulation of the country.* The new issue would never be questioned, as it would be based on something sounder than a sovereign (namely, on security worth £6, held by the Bank). These notes would immediately replace as much gold, and when a general improvement took place, the currency would collapse into its former state spontaneously, without any suspension of the law.

The borrowers from the Bank taking about one-sixth of the amount of the advances made to them in the notes of the Bank, would always be a most safe and legitimate extension of the circulation *to meet a temporary urgent demand,* whilst the very issue itself would always enable the public the sooner to pay off their engagements, by imparting that general ease and confidence *which alone are required.* It must always be remembered, that when a panic commences, there is such a demand for circulation (which the parties themselves can negotiate), that this account always increases to a great extent; but it cannot be expected that the Bank can go beyond a certain amount without a further means of circulation in its power. It is inconsistent with every sound principle of banking to lock up resources to such extent in securities; but if the necessities of the panic demand it, they equally demand (for

the exception to the general rule) *the further supply of circulation which I suggest.*

This, Sir, is the general outline of my plan, which, I believe, is perfectly sound, and would meet the difficulties of the case. There are several different ways in which the same idea might be carried out; but the one I have suggested would be the most easily understood; and I feel satisfied, if we wish to prevent a panic, it is essentially necessary that all the particulars of the relief should be known and understood, even by the most ignorant.

When the Chancellor of the Exchequer, Sir Charles Wood, was giving his reasons why the Government had interfered and suspended the law of 1847, he stated, "Parties of every description made application to us for assistance; they said anything you will do will give us confidence. Say you will stand by us, and we shall have all we want; do anything, in short, that will give us confidence. *If we think we can but get bank notes we shall not want them. Let us only have notes issuable by the Bank*, charge us with any rate of interest you please, 10 or 12 per cent. We do not want them; but only let us know that we can have them, and then we shall have sufficient resources of our own to go on with."

If this, Sir, was the language of 1847, what must have been the earnest appeal of the public for Bank of England notes in 1857? Surely, if such parties as these are not to have a circulation to meet their requirements, the sooner free-trade is abandoned the better. When we were going at the old stage-coach system of commerce in August, 1810, we had a circulation of Bank of England notes to the amount of £24,793,990; *in a panic*, and now going at railway speed, with free-trade, we had a circulation, on the 12th of November last, somewhere about £20,000,000, with

£581,000 of reserve, *to dole out to the craving necessities of panic-struck commerce.* Only the other day, when in London, one of the highest authorities of the City for currency and commerce, remarked to me, "It was an extraordinary feature in the late panic, the urgent demand for Bank of England paper:" and no wonder, when we consider that three or four hundred millions of engagements were to be settled on so short a supply of *small change all at once.* It is true, the great facilities of banking, and "lightning" communication, have economized, to an extraordinary extent, our paper currency and floating capital; but we must never forget, in a panic the former is not *current*, or the latter *floating*.

I particularly would call your attention to the following figures. You must remember, Sir, in October and November last, the bullion and reserve were running off at an alarming rate, till, at last, *on the 12th November* (see your statement as per *Times* of the 12th December last), the bullion to the credit of issues stood at £6,524,000, and the reserve at £581,000: now what has been the practical result of issuing the Government letter on that day on the position of the Bank? I see, by last week's return, ending the 13th of January, the bullion stood at £12,727,405, and the reserve and coin at £8,160,377; consequently, we see the timely issue of £2,000,000 more of notes has unlocked from the *iron grasp* of the panic by far the greater part of 6,203,405 sovereigns, and has placed in the banking department £7,579,377 *more of reserve,* whilst the £2,000,000 of notes themselves have been cancelled; and to place this result in a more striking light, I will copy from the *Economist* of last Saturday the following paragraph: "This is one of the most remarkable returns ever issued by the Bank; the rapidity with which their resources are increasing is

astonishing. During the week they have paid *the entire mass of dividends, and, in addition, have paid* £1,426,677 *for government securities.*" And all this has been done in about two months after a most protracted and aggravated pressure never known in this country before; when Europe, Asia, and America have been pressing heavily on our resources; when the two former alone, with our Colonies, have absorbed in the last six months no less than £23,000,000 of our bullion: proof beyond all doubt, *that relaxation in time of pressure is as sound as it is safe and salutary in practice;* and, I believe, Sir, if I had time and space, I could equally prove, that contraction in the time of ease is as essentially necessary, if we wish to preserve the soundness of trade.

This sudden reaction in the Money Market was just the same in the panic of 1847, only the relief was more instantaneously felt on the issuing of the Government letter, for this panic was more particularly a *home panic.* On this occasion the pressure was intense whilst it lasted. On the Monday morning, the 25th of October, before the Treasury letter was issued, there were many individuals, bankers, merchants, bill-brokers, etc., trying, as if it were possible, to gain admission to the Bank through the key-hole, when Lord J. Russell and Sir Charles Wood's pen at once declared an "open sesame" of the door itself. I beg to say, Sir, I have used no hyperbole here in describing this panic, for I perfectly recollect, before relief was given, all was consternation, alarm, and distrust; and, in fact, no one was considered safe: the next hour all was comparative ease and confidence, each moment seemed to revive.

I have simply now to add, that what a Treasury letter did on these two occasions, namely, on the 25th of October, 1847, and on the 12th of November, 1857, I believe would be better and far more efficaciously accomplished by

the suggestion I have made, *without the previous alarm and ruin.* I believe a large portion of the houses that have failed, would have never stopped payment; the currency would have righted itself, and the Bank would have recovered its equilibrium *spontaneously* without any violation of the law.

Ere long, we may have gold pouring into the Bank even to an alarming extent — I mean, for those who may wish to keep up the value of money. The Act of 1844 may perhaps then be lost sight of again; for its pressure-gauge will no longer disturb the dreams of the banking interest, and of the bill-brokers, and more ignoble army of money-lenders; nor terrify and perplex the borrower, nor *sweat* the hard trade of the country with its heavy discounts. Soon all may be "*serene*" and "*pleasant*"; but, however that may be, I would particularly recommend the present Committee of the House of Commons to examine and deliberate especially on this part of the currency question; and I think they will find my remarks are not without point, whether my suggestion receives attention or not.

Surely the country has suffered enough to forego its prejudices, and to give the subject the unbiased attention it deserves. Why should these pressures be so aggravated? Why should so much good property be melted into dross, and so many solvent houses brought to suffering and to ruin, simply from an inefficient currency which could be remedied so easily.

If I may be allowed to use a somewhat strange and out of the way simile, I would liken our currency in some respects to some monster bird which we have raised into the air without legs, which, when it is "in the clouds," is vigorous and apparently healthy, but when brought to the ground from exhaustion, or rather from want of inflation, *can never stand.*

It seems to me, Sir, we have expected our currency tree to bloom and fructify by fostering and irrigating its branches whilst we have severed its root.

In steering our way on the agitated sea of the currency, let us endeavour to our utmost to avoid all extremes, and only prudently take our course where experience and safety lead, and let the *unyielding silver vaults of Hamburgh, and the Plethora of useless paper in America,* act as warnings to direct us, and be our Sylla and Charybdis. If some such clause as I have suggested were embodied in the act of 1844, the Bank of England might then take its proper position in the country; and with its enormous capital, undoubted credit at all times, and with its intimate alliance with the government, it might then fulfil the intention of its high prerogative to succour and stimulate the ardent enterprize, the undaunted energy, and the patient industry of Old England; and in the time of alarm and pressure, might safely stoop to afford that assistance to free and solvent commerce, which must be her lot too often to require; *but alas! Sir, in these times of distress and danger, the Charter of the Bank now binds its hands in fetters; and when it alone can succour and support, it stands in silent apathy, helpless and hopeless, too, until its chains are loosed.*

I am, Sir,

Your obedient humble servant,

EDWARD LLOYD.

Ramsgate, 18th January, 1858.

END OF TITLE